

TENNESSEE HOUSING DEVELOPMENT AGENCY  
BOARD OF DIRECTORS  
January 17, 2002

Pursuant to the call of the Chairman, the Tennessee Housing Development Agency Board of Directors met on Thursday, January 17, 2002, at 1:00 P.M. in Conference Room A in Suite 1116, Parkway Towers, Nashville, Tennessee.

The following members were present: Janice Cunningham for Steve Adams, Kim Beals for Jay Ballard, William Bruce, Gerald Reed for Riley Darnell, Leigh Ferguson, Carolyn Flagg, David Hayes, Harold Hunter, Ronnie Knight, Bill Long, Ann Butterworth for John Morgan, Jeff Reynolds, Larry Rogers, and Jerry Sisson.

The following members were absent: Sam Bartholomew, Susan Brown, Mark Cunningham, Warren Neel, and Calestine Williams.

Chairman David Hayes opened the meeting for public comment. No one asked to address the Board. Next, Chairman Hayes declared a quorum was present and called the meeting to order. Upon motion by Mr. Bruce, seconded by Mr. Long, the minutes of the November 15, 2001, meeting were approved as distributed.

Janice Myrick, Executive Director, gave a brief review of the Monthly Board Report. She said the Agency closed its first Section 8 Homeownership Voucher mortgage through the Putnam County Habitat for Humanity. A new report is included in the Monthly Board Report which provides information about that program. The semi-annual report on the race and gender of Agency staff is included in this month's Board Report. Ms. Myrick reported that production is much slower than anticipated for the New Start 0% Program which was authorized through July 2002. She said the non-profits are not using the funds at the pace they thought they would, but they are interested in participating in the program. Staff will continue working with the non-profits to see what changes, if any, are needed to increase production.

Ms. Myrick referred to a letter she included in the Board packet dated December 19, 2001, from Michael McGuire, Department of Economic & Community Development ("ECD"). The Agency received an additional volume cap allocation of \$56.5 million at the end of December 2001. Ms. Myrick had requested the Commissioner of ECD and the Commissioner of Finance & Administration to consider a permanent increase in the Agency's volume cap allocation. The December 19, 2001, letter explains why the Agency will not receive a permanent increase. She said Senator Roscoe Dixon told Chairman Hayes that he is asking for a meeting with ECD and Agency staff to discuss the importance of housing to Tennessee and to ask that the permanent increase in allocation for the Agency be reconsidered.

The report of the Bond Finance Committee was next. Ms. Butterworth said the Committee received a report on mortgage resources and production. The Committee considered authorization of Homeownership Program Bonds, Issue 2002-1. Lynn Miller, General Counsel, said documents in the Board packet included a financing recommendation from the Agency's financial advisor, CSG Incorporated, a Plan of Financing for Issue 2002-1, the Board's Cover Resolution, and a form of the Supplemental Resolution. If the Board approves the Cover Resolution, the Board will authorize Issue 2002-1 in an amount not to exceed \$85 million, with authority delegated to the Bond Finance Committee to finalize the details of the transaction. Ms. Miller said the Committee adopted the Plan of Financing and recommended Board authorization. Upon motion by Mr. Sisson, seconded by Mr. Bruce, the Board approved the Cover Resolution.

Ms. Butterworth reported that the Bond Finance Committee also considered staff's recommendation to sell PLUS Program second mortgages to current servicers. The Agency is currently working to create a communication interface between the loan servicers, the Trustee and the Agency. The PLUS Program second mortgage records are creating an administrative problem and preventing the completion of the communication interface. Ms. Butterworth said the Committee recommended Board approval. Upon motion by Ms. Butterworth, seconded by Mr. Ferguson, the Board approved the Resolution Authorizing the Sale of PLUS Loans. Mr. Bruce abstained.

At the request of Chairman Hayes, Ms. Miller explained that in the context of discussing the next bond issue, during the Bond Finance Committee meeting, the Chairman raised the point that he would like to have the Bond Finance Committee staff and the Board consider using existing or available Agency resources to make mortgage loans. She said Chairman Hayes thought this could be a potential alternative to a bond issuance, particularly in the current budgetary climate.

Next on the agenda was the report of the Policy & Programs Committee. Mr. Sisson said the Committee heard an update of mortgage resources and production. He said Ted Fellman, Chief Financial Officer, reported that production has been good and the Agency received an additional \$56.5 million of volume cap at the end of December 2001. It was noted that there are sufficient resources to implement the 2002 Tax-Exempt Multifamily Bond Authority Program at \$30 million.

Mr. Sisson said the Policy & Programs Committee considered the 2002 Tax-Exempt Multifamily Bond Authority Program Description ("2002 Multifamily Program Description"). Mr. Sisson said the 2002 Multifamily Program Description changes the process from a competitive application process to an open application cycle. He said the Committee approved several changes to the 2002 Multifamily Program Description as originally included in the Board packet. The changes are (1) language will be incorporated to allow a ten working day extension of the deadline by which the sale of the bonds must close with 100% of the incentive fee forfeited; (2) the resubmission fee will not be charged during the fifteen-day period following the original determination of ineligibility of an application; (3) substitute language to include a form of bond purchase commitment letter; and (4) the opening date for submission of applications was changed to February 15, 2002. Mr. Sisson moved for Board approval of the 2002 Multifamily Program Description, as amended and Mr. Bruce seconded. During discussion, Mr. Reynolds pointed out that there were several Board members who hope consideration would be given to allocating additional funds to the Multifamily Program if the open application cycle is successful and all of the initial \$30 million is used. Chairman Hayes called for a vote and the motion passed unanimously.

The Housing Cost Index for 2002 was also considered by the Policy & Programs Committee. Mr. Sisson said a memorandum dated January 8, 2002, from Lorrie Shearon was included in the Board packet. A revised Board resolution, regarding the Housing Cost Index for 2002, correcting a typographical correction was distributed. By statute, the Agency is required to calculate a Housing Cost Index, which represents what the average Tennessee household would pay, as a percentage of income, for the average Tennessee house. If the Housing Cost Index exceeds 25%, the statute provides that the Agency's programs are automatically operative. If the Housing Cost Index drops below 25%, the Board can make a finding that the programs are still necessary. Mr. Sisson said the memorandum reflects a housing cost index of 21.51%. He moved that the Board accept the Housing Cost Index calculation of 21.51% as of January 8, 2002, and expressly authorize the continued operation of the Agency's financial assistance programs as provided in the resolution. Mr. Long seconded and the motion passed by unanimous vote.

Next for Board consideration was a request for prepayment for Pinewood Apartments. Pinewood Apartments is a Section 8 project-based development which was financed with a THDA mortgage. Ms. Miller stated Mr. Harry Johnson, who owns Pinewood Apartments, is requesting the prepayment. He

is approximately at the halfway point of the life of his loan and the Housing Assistance Payment (“HAP”) contract. She said Mr. Johnson will remain committed to the current HAP contract. The Board has authorized previous prepayment requests subject to the conditions of the Board’s policy that (1) a Restrictive Covenant be imposed securing use of the property for low income people for an amount of time equal to the full HAP term; (2) HUD must assume the administration of the HAP contract or make satisfactory arrangements for the Agency to continue as contract administrator; and (3) the prepayment approval is valid for six months from the date of Board approval. Ms. Miller said staff recommends approval of this prepayment request contingent upon the owner’s compliance with the policy requirements.

During discussion by the Board, a question was raised about imposing a prepayment penalty. Ms. Miller explained that the Board previously was reluctant to impose a prepayment penalty, at the time a prepayment request was made, if the prepayment penalty was not originally part of the deal. She said that the current Board policy for approving prepayment requests was established to address the Board’s concerns, when the current policy was established, that the housing be maintained for low-income people, as originally intended, and that the Agency not incur additional, uncompensated administrative expenses. Mr. Sisson moved to approve the request for prepayment subject to the policy conditions described in Kathy Whalen’s January 17, 2002, memorandum. Mr. Reynolds seconded the motion and suggested that, when a similar request is made, that an analysis be done regarding expected earnings over the remaining life of the mortgage.

Extensive discussion resulted regarding the Agency’s ability to impose conditions on pay-off approval, including negotiating a prepayment fee, the effect of a pay-off on payments under the HAP contract or on rents charged to tenants, the current Agency policy regarding pay-off requests, how prior requests have been treated and how savings resulting from a pay-off would be used. Mr. Bruce stated he could not vote to approve the request for prepayment if there is no financial benefit to the Agency or the tenants. After further discussion, Mr. Rogers moved to defer Mr. Sisson’s motion until the next meeting and Mr. Long seconded. The motion to defer passed with Mr. Reed and Mr. Sisson voting no and Mr. Hunter abstaining. Chairman Hayes asked staff to prepare an economic analysis of the prepayment request and evaluate what, if any, benefits would there be to the owner and to the tenants.

The legislative update was next on the Board agenda. Ms. Myrick said the bills which the National Council of State Housing Agencies (“NCSHA”) are tracking include the repeal of the ten-year rule, simplifying the calculation of the acquisition limits and the low income housing tax credit rents. She said only three members of the Tennessee Congressional delegation have signed on. The State legislature is back in session. Senator Harper filed a bill, SB 2105, to continue the Agency’s existence until 2008. Senator Dixon submitted SB 2151 which requires the Agency to submit a plan to both speakers and the Governor regarding the funding of the THDA single family homeownership programs. This is a result of the sunset review and State Audit’s finding that in 1999 when the Agency’s production was so high and resources did not match demand. Ms. Myrick said was asked to appear before the Senate Finance, Ways and Means Committee on January 22, 2002, to address the Agency’s reserves and issues regarding transferring Agency funds to the State general fund.

Chairman Hayes said NCSHA has heard that the Internal Revenue Service plans to place closer scrutiny on all states dealing with mortgage revenue bonds. The primary concern appears to be when earnings are transferred elsewhere and the HFAs might not be using the earnings in keeping with the intent of Congress. If the IRS decides to impose more stringent regulations on HFAs, the Agency could lose earnings capacity.

Chairman Hayes said the NCSHA Legislative Conference will take place in Washington, DC, on March 11-13, 2002. He asked Board members interested in attending to contact him or Ms. Myrick as soon as possible.

The next agenda item was a report on the Agency's financial and compliance audit by the Comptroller's office. Ron Erickson, Director of Internal Audit, reported that State Audit had one finding which was on Section 8 Contract Administration that we need to improve our written policies and procedures. There were three recommendations included in the finding that strengthen the controls by developing written policies and procedures, make sure staff all are made aware of these procedures and follow up with compliance work on those. Staff concurred with all of the recommendations, responded to State Audit, and have implemented most of the improvements already.

There was no further business to come before the Board and the meeting adjourned.

Respectfully submitted,

Janice L. Myrick  
Executive Director

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